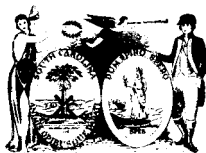


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

January 8, 2003

Mr. Douglas R. Ruth, Director of Reimbursement
Life Care Centers of America
3570 Keith Street, NW
Cleveland, Tennessee 37320

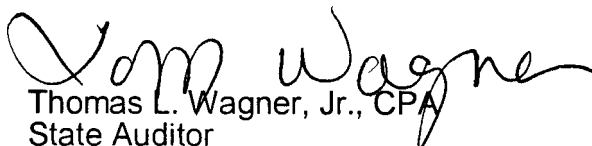
Re: AC# 3-LHH-J0 – Life Care Center of America, Inc.
d/b/a Life Care Center of Hilton Head

Dear Mr. Ruth:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1999 through September 30, 2000. That report was used to set the rate covering the contract periods beginning October 1, 2001.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph P. Hayes

**LIFE CARE CENTER OF AMERICA, INC.
D/B/A LIFE CARE CENTER OF HILTON HEAD**

HILTON HEAD, SOUTH CAROLINA

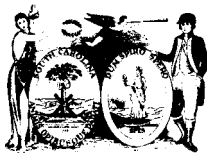
**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2001
AC# 3-LHH-J0**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING OCTOBER 1, 2001	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2001 THROUGH SEPTEMBER 30, 2002	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 2000	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	9

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

November 19, 2002

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head, for the contract period beginning October 1, 2001, and for the twelve month cost report period ended September 30, 2000, as set forth in the accompanying schedules. The management of Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

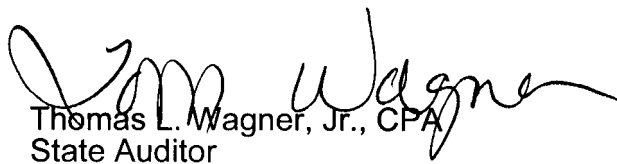
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head dated as of October 1, 2001 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
November 19, 2002

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.


Thomas L. Wagner, Jr., CPA
State Auditor

LIFE CARE CENTER OF HILTON HEAD

Computation of Rate Change
For the Contract Period
Beginning October 1, 2001
AC# 3-LHH-J0

	10/01/01- <u>09/30/02</u>
Interim Reimbursement Rate (1)	\$106.32
Adjusted Reimbursement Rate	<u>105.22</u>
Decrease in Reimbursement Rate	\$ <u>1.10</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 25, 2002

LIFE CARE CENTER OF HILTON HEAD
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2001 Through September 30, 2002
AC# 3-LHH-J0

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$47.86	\$54.59	
Dietary		10.45	11.36	
Laundry/Housekeeping/Maintenance		<u>9.80</u>	<u>9.21</u>	
Subtotal	\$ <u>5.26</u>	68.11	75.16	\$ 68.11
Administration & Medical Records	\$ <u>-</u>	<u>16.22</u>	<u>12.38</u>	<u>12.38</u>
Subtotal		84.33	<u>\$87.54</u>	80.49
<u>Costs Not Subject to Standards:</u>				
Utilities		3.58		3.58
Special Services		.16		.16
Medical Supplies & Oxygen		4.80		4.80
Taxes and Insurance		2.46		2.46
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$95.33</u>		91.49
Inflation Factor (3.80%)				3.48
Cost of Capital				7.29
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				5.26
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.51)
Nurse Aide Staffing Add-On 10/01/00				<u>1.21</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$105.22</u>

LIFE CARE CENTER OF HILTON HEAD
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2000
AC# 3-LHH-J0

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,479,862	\$ -	\$ -	\$1,479,862
Dietary	323,157	-	-	323,157
Laundry	71,339	-	-	71,339
Housekeeping	124,943	-	-	124,943
Maintenance	106,823	-	-	106,823
Administration & Medical Records	485,488	15,933 (4)	-	501,421
Utilities	110,760	-	-	110,760
Special Services	4,985	-	-	4,985
Medical Supplies & Oxygen	148,402	-	-	148,402
Taxes and Insurance	92,126	-	15,933 (4)	76,193
Legal Fees	-	-	-	-
Cost of Capital	242,722	767 (3)	10,569 (1) 7,064 (2) <u>569 (5)</u>	225,287
Subtotal	3,190,607	16,700	34,135	3,173,172

LIFE CARE CENTER OF HILTON HEAD
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2000
AC# 3-LHH-J0

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Ancillary	114,999	-	-	114,999
Non-Allowable	(112,651)	10,569 (1) 7,064 (2) <u>569 (5)</u>	767 (3)	(95,216)
Total Operating Expenses	<u>\$3,192,955</u>	<u>\$34,902</u>	<u>\$34,902</u>	<u>\$3,192,955</u>
Total Patient Days	<u>30,920</u>	<u>-</u>	<u>-</u>	<u>30,920</u>
Total Beds	<u>88</u>			

LIFE CARE CENTER OF HILTON HEAD
Adjustment Report
Cost Report Period Ended September 30, 2000
AC# 3-LHH-J0

ADJUSTMENT NUMBER	ACCOUNT TITLE	DEBIT	CREDIT
1	Accumulated Depreciation	\$ 68,810	
	Other Equity	149,577	
	Nonallowable	10,569	
	Fixed Assets		\$218,387
	Cost of Capital		10,569
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Loan Cost	15,880	
	Nonallowable	7,064	
	Accumulated Amortization		11,222
	Other Equity		4,658
	Cost of Capital		7,064
	To adjust loan cost and related amortization HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Cost of Capital	767	
	Nonallowable		767
	To adjust depreciation and amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		
4	Administration	15,933	
	Taxes and Insurance		15,933
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk HIM-15-1, Section 2304		

LIFE CARE CENTER OF HILTON HEAD
Adjustment Report
Cost Report Period Ended September 30, 2000
AC# 3-LHH-J0

ADJUSTMENT NUMBER	ACCOUNT TITLE	DEBIT	CREDIT
5	Nonallowable Cost of Capital	569	569
	To adjust capital return State Plan, Attachment 4.19D		
		_____	_____
	TOTAL ADJUSTMENTS	\$ <u>269,169</u>	\$ <u>269,169</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

LIFE CARE CENTER OF HILTON HEAD
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2000
AC# 3-LHH-J0

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.3848</u>	<u>2.3848</u>	
Deemed Asset Value (Per Bed)	37,246	37,246	
Number of Beds	<u>44</u>	<u>44</u>	
Deemed Asset Value	1,638,824	1,638,824	
Improvements Since 1981	148,231	106,913	
Accumulated Depreciation at 9/30/00	<u>(661,401)</u>	<u>(543,398)</u>	
Deemed Depreciated Value	1,125,654	1,202,339	
Market Rate of Return	<u>.058</u>	<u>.058</u>	
Total Annual Return	65,288	69,736	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	65,288	69,736	
Depreciation Expense	28,502	61,315	
Amortization Expense	635	-	
Capital Related Income Offsets	(94)	(95)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	94,331	130,956	\$225,287
Total Patient Days (Minimum 96% Occupancy)	<u>15,460</u>	<u>15,460</u>	<u>30,920</u>
Cost of Capital Per Diem	\$ <u>6.10</u>	\$ <u>8.47</u>	\$ <u>7.29</u>

LIFE CARE CENTER OF HILTON HEAD
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2000
AC# 3-LHH-J0

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 8.11	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	\$ <u>12.10</u>	\$ <u>8.47</u>
Reimbursable Cost of Capital Per Diem		\$7.29
Cost of Capital Per Diem		<u>7.29</u>
Cost of Capital Per Diem Limitation		\$ <u>-</u>

2 copies of this document were published at an estimated printing cost of \$1.38 each, and a total printing cost of \$2.76. The FY 2002-03 Appropriation Act requires that this information on printing costs be added to the document.